

TOWN OF EXETER, NEW HAMPSHIRE

Management Letter

For the Year Ended December 31, 2009

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To the Board of Selectmen
Town of Exeter, New Hampshire

In planning and performing our audit of the financial statements of the Town of Exeter, New Hampshire as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Exeter's internal accounting control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. In addition, because of inherent limitations in internal control, including the possibility of management's override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. Material weaknesses are noted in the table of contents and comment headings.

During our audit we also became aware of several other matters that we believe represent opportunities for strengthening internal controls and operating efficiency.

The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

The Town's written response to our comments and suggestions has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, Board of Selectmen, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

After you have had an opportunity to consider our comments and recommendations, we would be pleased to discuss them with you.

Nashua, New Hampshire
_____, 2010

INTRODUCTION:

During 2009, the Town implemented a new financial management system and was able to provide balanced trial balances for audit at year-end. This represents a significant improvement over prior year when at times, the Town's general ledger (the cornerstone of the accounting system) was not balanced. Additionally, the Town implemented GASB Statement 34 for the first time. We also understand that the Town has hired an Assistant Town Accountant. We encourage the Town to build on this progress by implementing our recommendations to the material weaknesses noted throughout this report.

This report is organized in two parts; the first section is material weaknesses (defined on page 1) that should be addressed immediately. The second section is other control deficiencies that should be addressed after the material weaknesses have been rectified. Prior year recommendations that have not been fully implemented are noted throughout this report.

SECTION ONE - MATERIAL WEAKNESSES:

1. Improve Cash Reconciliation Procedures (Material Weakness)

The Town's cash reconciliation procedure (reconciling bank account statement balances to the general ledger) is not adequately designed to prevent errors and irregularities from occurring and not being detected and corrected in a timely manner.

Currently, staff in the Finance Department or temporary help/contractors, prepare bank account reconciliations and ensure that the reconciled bank statements agree with the general ledger cash balances. Those same individuals (including temporary help) maintain the general ledger and have authorization to make journal entry adjustments to the system. As a result, a lack of segregation of duties exists which puts the Town at risk for errors and or irregularities occurring in the cash process, particularly by unauthorized journal entries to the general ledger. Additionally, a complete Treasurer's cash book is not maintained by the Town.

We recommend that the Town revise the cash reconciliation procedure and ensure that individuals that perform bank account reconciliations are restricted (within the accounting system's inherent controls) from making any journal entries. We further recommend that a complete Treasurer's cash book be maintained.

During our audit we also became aware that cash reconciliations were not performed regularly (monthly) and often were prepared by temporary employees or contractors. We recommend that bank account reconciliations and a reconciliation to the general ledger be performed every month. Also, temporary employees or contractors should be restricted from making journal entries to the accounting system.

Town's Response:

The Town has improved upon its cash reconciliation and procedures during 2010. Prior to 2010, bank reconciliations were difficult to perform on a monthly basis due to lack of resources in Finance. A full-time staff accountant was added to Finance in the last quarter of 2010.

All bank accounts are now reconciled on a monthly basis, reviewed and approved by the Town Manager. The staff accountant has been limited to making journal entries, but does not have authorization to post journal entries into the general ledger. Finance works with the Town Treasurer who receives a full copy of all bank reconciliations to the general ledger and bank statements.

2. Centralize the Accounting Activities (Material Weakness)

Prior Year Issue:

In the prior year, we recommended that the accounting records for all departments and funds be centralized into one location and one general ledger system. This would allow the Town to generate reports that contain a complete financial accounting of all departments and funds throughout the year, and increase efficiency by eliminating the need for multiple bookkeepers. In addition, compliance with IRS tax reporting requirements could be more easily accomplished since a centralized general ledger would generate the information that needs to be reported. Activities that are not centralized include trust accounts, escrow deposits, Impact fees and library accounts.

Current Year Status:

This recommendation was not implemented. During the current year, we noted the following weaknesses with the decentralized records:

- Instances lacking an adequate segregation of duties, where one individual controlled multiple phases of the accounting function for various special revenue funds.
- Risk where duplicate payments could be made (where a decentralized department makes a payment or reimbursement that is also submitted to the Town for payment).
- Lack of formal documented invoice approval from an authority other than the individual writing the checks.

Further Action Needed:

We continue to recommend that the general ledger accounting records be centralized for better controls over financial reporting.

Town's Response:

The Town made significant progress during 2010 in centralizing the general ledger. All Town Departments now use the Munismart general ledger for all financial reporting. The Library Trustees view the Library as an independent entity separate from the Town and have their own Finance Director. It is uncertain as to whether or not the Library would be willing to centralize their records into Munismart.

Due to the limited amount of Finance staff, it was not previously possible to avoid one individual being involved in multiple phases of accounting functions. During the third quarter of 2010, a staff accountant was hired, which has enabled the Finance office to begin working on segregation of duties issues. For instance, the Staff Accountant who performs bank reconciliations can prepare journal entries, but cannot post journal entries. The Town Manager is working on a proposal to centralize cash collections in 2011. During 2010, the water and sewer billing was moved to the Department of Public Works and only the water and sewer collections only resides in Finance.

3. Improve Financial Reporting and Accounting System (Material Weakness)

Prior Year Issue:

In the prior year, we recommended that instead of relying on the year end audit to adjust balance sheet, revenues and expenditure accounts, the Town should record all financial activity into the general ledger, monitor the balance sheet on a monthly basis, and develop year end closing procedures.

Current Year Status:

Audit adjustments were still necessary and several balance sheet accounts were not reconciled prior to the start of the audit. A brief summary of the types of entries proposed during the audit follows:

- Due from/to accounts were not properly used and required significant analysis and adjustments.
- Transfers in and out accounts were not balanced and required significant analysis and adjustments.
- Budgeted revenue and expenditure amounts posted to the accounting system were not balanced resulting in transfers between funds not being recorded.
- Certain general ledger balance sheet accounts remain unchanged for several years and need continued analysis.
- Certain departmental accounts receivable were not recorded in the general ledger.

Further Action Needed:

We continue to recommend that balance sheet, revenues, and expenditure accounts be monitored, adjusted, and reconciled on a monthly basis and the Town develop year end closing procedures. In addition, we continue to recommend that the Town retain the service provider to assist in preparing the financial statements and to review the statements to ensure material misstatements are not present.

Town's Response:

Due to the limited amount of Finance staff in 2009, it was difficult to keep up with the day to day accounting responsibilities and reconcile over 200

balance sheet accounts on a monthly basis. Consultants were hired in order to help the Town prepare for the audit. Since a staff accountant was hired in late 2010, the Town will be able to comply with monthly balance sheet reconciliations which will eliminate the need to hire a service provider.

4. Implement a Formal Risk Assessment (Material Weakness)

Prior Year Issue:

In the prior year, we recommended that the Town perform its own risk assessment process, a necessary management function that will help the Town determine where it may be vulnerable to fraud or material misstatement caused by either errors or irregularities.

Current Year Status:

This recommendation was not implemented.

Further Action Needed:

We continue to recommend that the Town formally document where it is at risk for errors and irregularities, and propose corrective action. This Management Letter could be used as a starting point for the Town, and should include, at a minimum, the Administration, elected officials, and department heads assessment of where errors and or irregularities over the Town's assets could occur. Identified risk should be formally documented and include how the Town plans on addressing the identified risk.

Town's Response:

The Town will work on formally documenting where it is at risk for errors and irregularities, and propose corrective action during 2011.

5. Implement Internal Audits (Material Weakness)

Prior Year Issue:

In the prior year, we recommended that the Town's Accounting staff perform periodic internal audits of the various departments that are responsible for collecting receipts. Also see recommendation 8.

Current Year Status:

This recommendation was not implemented.

Further Action Needed:

We continue to recommend that the perform periodic internal audits of the various departments that are responsible for collecting receipts.

Town's Response:

The Town will evaluate the need to perform periodic audits.

6. Obtain an Actuarial Valuation (Material Weakness)

The Town has not recorded a liability for its net OPEB (retiree health care) obligation on its government-wide financial statements. As a result, the Town is still not fully in compliance with generally accepted accounting principals.

We recommend that the Town contract with an actuary to estimate the Town's net OPEB obligation liability to continue towards fully complying with generally accepted accounting principals.

Town's Response:

The Town will obtain quotes and evaluate the expense of hiring an actuary to estimate the 2010 OPEB obligation liability.

SECTION TWO - OTHER CONTROL DEFICIENCIES:

7. Improve Journal Entry Documentation

Prior Year Issue:

In the prior year, we recommended that the Town ensure that supporting documentation be retained for all journal entries and that the support be cross-referenced to the entry. Journal entries should be filed in an orderly manner and include a clear description or explanation of the reason for the entry. This will reduce the risk that journal entries will be unsupported, improper, or unable to be located.

Current Year Status:

This recommendation was not fully implemented.

Further Action Needed:

We continue to recommend that the Town ensure supporting documentation be retained for all journal entries and that the support be cross-referenced to the entry.

Town's Response:

The Finance department will ensure that all journal entries have supporting documentation and are presented in an orderly fashion. Instances where this occurred in 2009 were on a very limited basis.

8. Enhance Formal Departmental Receipt Procedures

Prior Year Issue:

In the prior year, we recommended the Town formally document uniform policies and procedures for departments to follow to properly account for and remit miscellaneous receipts to the Treasurer. Issues to be considered for a formal policy include:

- Maintaining a pre-numbered receipt book
- Maintaining a log of receipts
- Maintaining an audit trail over remittances to the Treasurer
- Establishing policies for frequency of remittances
- Coding of account numbers on turnover sheets
- Documenting whether cash or check was received
- Securing of cash on hand during operating hours and overnight
- Segregating of duties and documenting oversight processes
- Reconciling departmental records to the general ledger

Current Year Status:

This recommendation was not implemented; however, the Town does have a basic policy dating back to 1998.

Further Action Needed:

We continue to recommend the Town formally create and document written policies and procedures over departmental receipt handling. Documentation and implementation of these procedures will reduce the risk of errors or irregularities occurring, and going undetected. We could provide the Town with examples of departmental receipt policies if requested.

Town's Response:

The Town will update policies and procedures over departmental receipt handling.

9. Fund Deficit Accounts

Prior Year Issue:

In the prior year, we recommended the Town establish a plan to fund deficit balances in various special revenue and capital project funds to improve the Town's financial position.

Current Year Status:

This recommendation was not implemented. However, we were provided with a draft analysis of a report on the Stewart Park Seawall Project deficit, but no conclusion of the deficit has been established.

Further Action Needed:

We continue to recommend the Town establish a plan to fund these deficit balances.

Town's Response:

The Town is of the opinion that overspent balances are due to the timing of expenses and funding sources such as state reimbursements and bond proceeds. However, the Town will establish a plan to address the items identified in the audit.

10. Record Departmental Receivables In the General Ledger

Prior Year Issue:

In the prior year, we recommended that all departments forward copies of the bills issued to the Finance Director's office, for reporting of outstanding receivables in the general ledger. Implementation of this recommendation will help improve control over receivables and increase the accuracy of the financial information reported by the Town.

Current Year Status:

This recommendation was not fully implemented.

Further Action Needed:

We continue to recommend the record all receivable in the general ledger.

Town's Response:

The Town is working on full implementation of recording all accounts receivable in the general ledger.

11. Improve Internal Controls over Disbursements

During our testing of internal controls over disbursements, we noted the following exceptions:

- Credit card payments were authorized only by the individuals making the purchases. In addition, in some cases, there was no support for credit card payments other than the monthly statement and the approved departmental voucher.
- No official petty cash slips are issued for reimbursements to employees.
- Certain Library payments were not formally approved for payments, and no support was provided when the Library replenishes the petty cash between Library accounts.

We recommend the Town require appropriate supporting documentation before allowing a payment to be processed or reimbursed.

Town's Response:

The Town will work toward appropriate supporting documentation before allowing payments to be processed or reimbursed.

12. Establish FTC "Red Flag" Security Documentation

Prior Year Issue:

In the prior year, we recommended that the Town establish the Red Flag documentation to assure compliance with the new Federal requirement and safeguard against identity theft related to utility accounts.

Current Year Status:

This recommendation has not been implemented.

Further Action Needed:

We continue to recommend that the Town implement written programs to identify, detect, and respond to patterns, practices, or specific activities - know as red flags - that could indicate identity theft by the December 31, 2010 (as revised) federal deadline.

Town's Response:

The Town will try to evaluate GASB 45 in 2011.